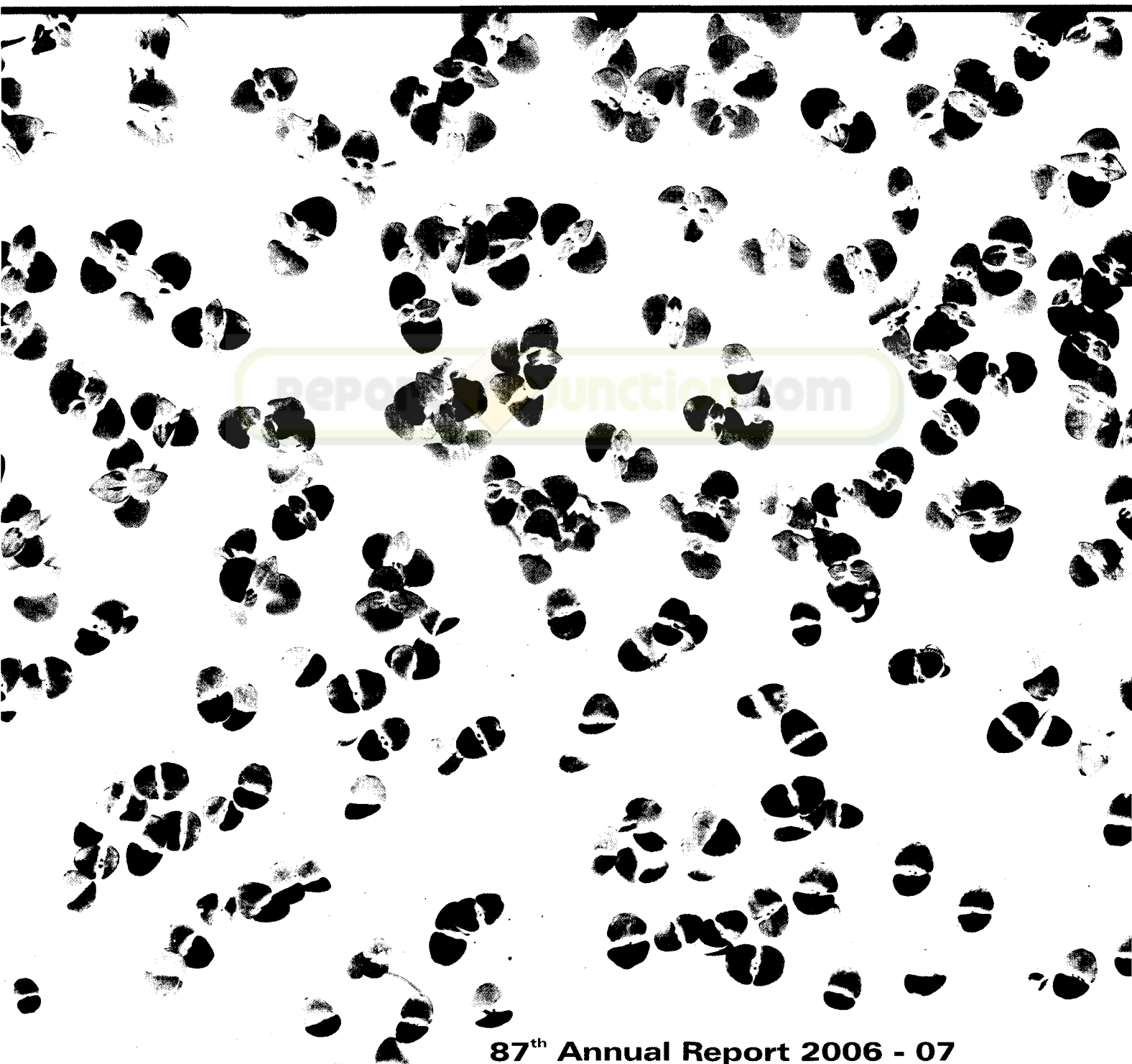




KIRLOSKAR BROTHERS LIMITED

Enriching Lives

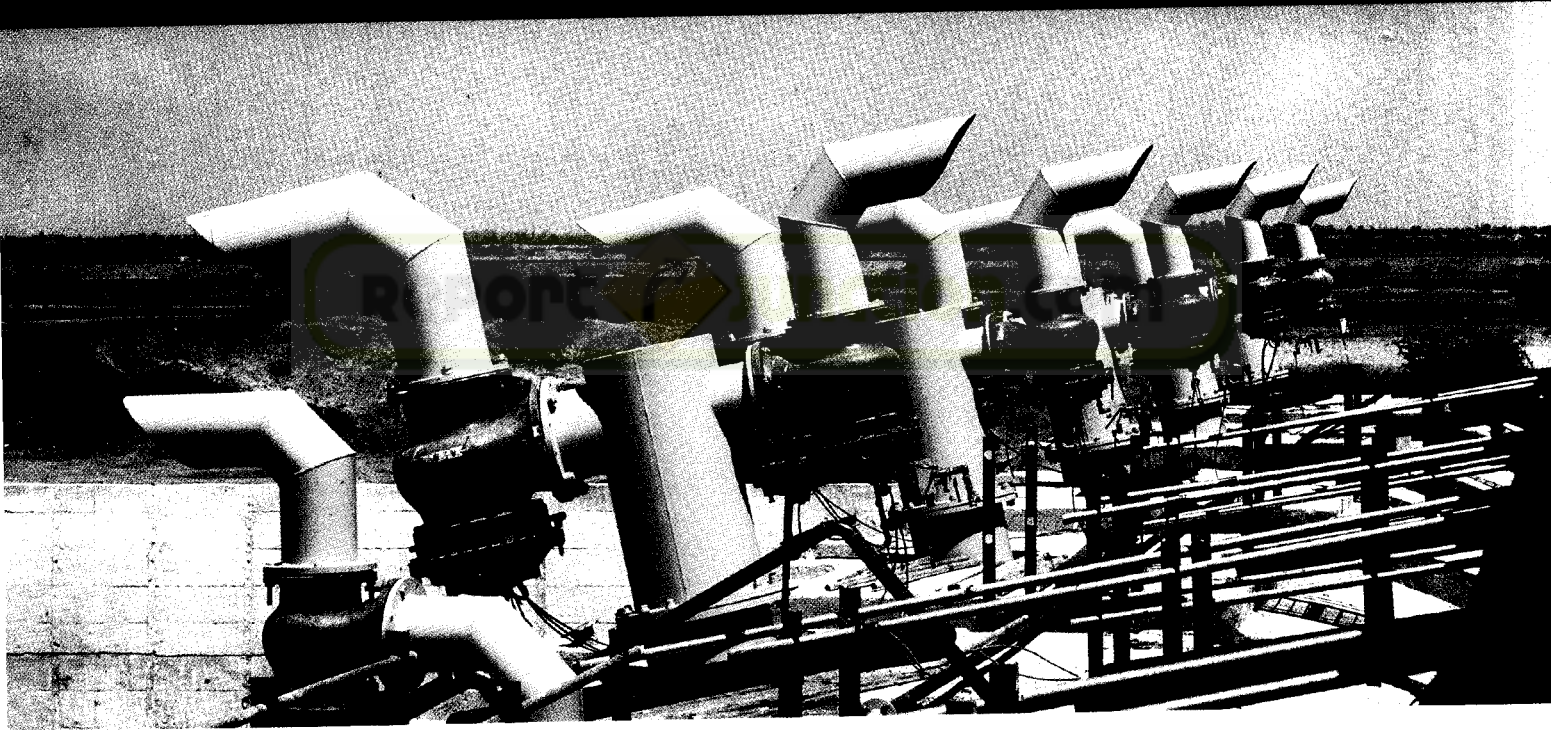


87th Annual Report 2006 - 07

growth in harmony with the environment

Committed to the environment

While we meet our energy needs for today, we must not turn off the tap for tomorrow's generation. At Kirloskar we believe in responsible industry leadership, creating profitable growth in harmony with the environment.



The innovative siphon breaking and siphon arrangement system

KBL has been awarded a US patent for siphon creation and breaking arrangement for Sardar Sarovar Project at Saurashtra Branch Canal at Dhanki, District Surendranagar.

The use of energy efficient siphon arrangement will provide the following benefits :

- Reduction in motor rating : 8.5 MW
- Annual energy conservation : 34.96 million units
- Annual saving in electricity : worth Rs. 122.3 million

**Board of Directors**

Sanjay Kirloskar	Chairman & Managing Director
Gautam Kulkarni	Vice Chairman
Vikram Kirloskar	Executive Director
M. S. Kirloskar	
S. S. Marathe	
S. N. Inamdar	
M. G. Padhye	
Rahul Kirloskar	
U. V. Rao	
R. K. Srivastava	Whole Time Director
P. S. Jawadekar	
J. R. Sapre	Whole Time Director
A. N. Alawani	
Lalita D. Gupte (from 18.01.2007)	

Company Secretary

G. P. Kulkarni

AuditorsM/s. P. G. Bhagwat
Chartered Accountants**Bankers**Bank of India
Canara Bank
HDFC Bank Limited**Registered & Corporate office**Udyog Bhavan, Tilak Road, Pune 411 002
Maharashtra State (India)
Phone : (020) 2444 0770 Fax : (020) 2444 0822
E.mail : kblin@kbl.co.in Website : www.kbl.co.in
Group Website : www.kirloskar.com**Works**

Kirloskarvadi, Dewas, Shirval, Kondhapuri

Information for Shareholders		Contents	Page No.
Annual General Meeting		Decade at a Glance	2
Day & Date	: Friday, July 20, 2007	Chairman's Letter	3 - 4
Time	: 11.00 a. m.	Directors' Report	5 - 9
Venue	: Tilak Smarak Mandir, Tilak Road, Pune 411 030	Management Discussion & Analysis	10 - 30
Dates of Book Closure	: July 7, 2007 to July 20, 2007 (both days inclusive)	Report on Corporate Governance	31 - 44
		Auditors' Report	45 - 47
		Balance Sheet	48
		Profit & Loss Account	49
		Cash Flow Statement	50
		Schedules to the Accounts	51 - 78
		Statement relating to Subsidiary Companies	79 - 80
		Consolidated Financial Statements	81 - 101

DECADE AT A GLANCE

(Rupees in Millions)

Particulars	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net Sales	3375	3397	3713	4162	3746	4757	5078	7309	9246	13400
Other Income	51	96	79	295	82	72	225	132	750	2408
Material Cost	1910	1782	2162	2557	2279	3126	3393	4859	6093	9290
Other Expenses	1168	1296	1270	1493	1209	1371	1405	1896	1965	2563
Interest	155	137	120	141	106	75	65	48	55	84
Depreciation	57	67	72	78	83	85	107	100	97	121
Profit before tax	136	211	168	188	151	172	333	538	1786	3750
Income tax provision	29	50	43	48	28	52	68	31	63	385
Net Profit after tax	107	161	125	140	123	120	265	507	1723	3365
Share Capital	71	71	71	71	71	71	71	71	212	212
Reserves	999	1125	1215	1321	1352	1459	1565	1832	2932	5808
Net Worth	1070	1196	1286	1392	1423	1530	1636	1903	3144	6020
Imports	114	101	51	54	49	119	144	261	606	987
Exports	760	653	456	586	585	585	572	1005	685	2266
Earnings per Share (Rs.) (Face Value of Rs. 2/-)	3.05	4.58	3.54	3.98	3.48	3.41	7.51	14.17	15.42	31.82
Dividend %	40.00	45.00	45.00	45.00	45.00	45.00	200.00	300.00	200.00	*200.00
Book Value per Share (Rs.)	30.36	33.94	36.48	39.47	40.37	43.40	46.40	53.97	29.73	56.92

Notes

Previous years' figures have been regrouped to make them comparable.

*Includes 100% Interim Dividend paid and recommended Dividend (Final) 100%

Figures of Earning per Share and Book Value per Share are calculated for all the reported years above, after considering the sub-division of equity share of Rs. 10/- each to share of Rs. 2/- each.



Dear Shareholders,

The year 2006-07 has been remarkable financial year for a few reasons. Our company has crossed a milestone of Rs. 1000 crores turnover registering a growth of 44.92% over the last year. Our company also successfully commissioned the world's largest pumping scheme on Saurashtra Branch Canal of Narmada projects. This is an event which all of us can be proud of. The continued growth in Indian economy and our focused efforts to expand the market also contributed to this growth.



The Indian economy has been registering a growth rate of about 8.5% for the third consecutive year. The growth is in all the sectors including manufacturing sector, service sector, foreign direct investment (FDI) and so on. With domestic consumption and investments been the main growth drivers. I feel that the growth trend would continue for the current year as well, contributing largely to the overall growth of our country.

While this situation is very good for the overall growth of our company, we need to cautiously take various measures to ensure that the said growth is sustainable in the years to come. I had mentioned to you in my earlier communications that we have put the strategies in place to become one of the top manufacturing companies in the world. In order to concentrate on a core business, during the year, the company has sold its entire stake in Kirloskar Copeland Limited (KCL) to our Joint venture partner. As you are aware that KCL was engaged in manufacturing of hermetically sealed compressors and other compressors. I am also glad to share with you that in order to achieve the synergy benefits, our company was considering the possibility to enter civil and construction business which is complementary to that of KBL.

As you know, KBL has moved from a product company to a total system solution provider. I am glad to inform you that we have acquired Aban Constructions Pvt. Ltd., a Chennai based company belonging to a reputed Aban group. This company is engaged in oil and gas cross country pipelines and other construction activities. I am sure that with the synergy benefits, the company is poised to become an Engineering Procurement & Construction company to join the reputed EPC Companies.

Last year all our strategic business units have contributed for this growth. Our Industrial Pumps Group continues to get prestigious orders from steel, water purification, oil and gas, coal and construction sectors. We could get these orders due to technical superiority of our products. During my last communication, I had mentioned that we are the only Factory Mutual (FM) approved and underwriters laboratory (UL) listed fire fighting pump manufacturer in India and we have launched the scheme during the current year. For this business group, various other measures such as up-gradation and modernisation of manufacturing facilities in Kirloskarwadi factory are continuing.

During the year 2006-07, we have divided our Projects and Engineered Pumps group into two pump business groups - "Infrastructural Pumping Projects group" and "Projects and Engineered Pumps group". With the creation of these two groups, we are confident that we would have positioned ourselves in different segments towards the end of the year. The infrastructural pumping projects division received very prestigious orders from Government of Andhra Pradesh for various lift irrigation schemes. You would observe else where in this Annual report other achievements by this group such as first order for sewage water plant, approval from Bechtel for their global power projects and their continued leading positions in water segments.

I am glad to inform that the company has received various orders for small and medium mini Hydel projects.

The Agricultural and Domestic pump group has also contributed substantially to the growth. This plant situated at Dewas has achieved highest ever production in terms of numbers as the growth of this group revolves around volume driven cost leadership. This division has also started focusing on institutional marketing.

I am especially glad to share with you, the complete turn around of our Valves business group. This group has doubled production with the same manpower and is formulating ambitious long term strategies to expand our business.

The Corporate International Division (CID) recorded the highest ever export this year and continued their efforts to promote our brand globally, by establishing a network of committed distributors. The largest export order of Senegal was successfully completed during the year. Using in-house strengths of project management and execution, the division is expanding KBL's presence overseas.

As you are aware, the enhancement of business is possible with effective support of human resources. Our Company has signed wage agreements with the workers unions at all locations last year offering appropriate rise to the workmen. The salary of the staff has also been re-structured to ensure that we are able to attract and retain talent.

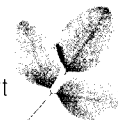
Along with this, additional measures such as training, communication, involvement in the strategic discussion are taken by the company to have committed manpower to achieve the desired goals. We have also finalized Employees Stock Option Scheme (ESOS) for the employees. I am sure that these measures would go in a long way in creating employee commitment and involvement in the growth of our company.

As seen from the results, these measures are contributing to increase the value of your investment in the company. I look forward to continue this journey to achieve our desired goal.

Sincerely,



Sanjay Kirloskar



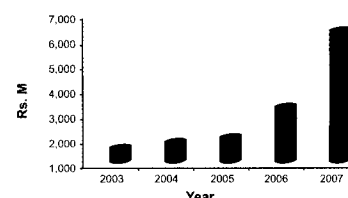
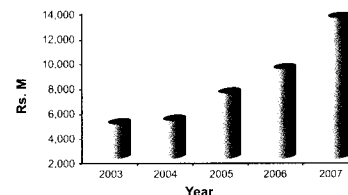
DIRECTORS' REPORT TO THE MEMBERS

Your Directors present the 87th Annual Report and the Audited Annual Accounts of the Company for the year ended March 31, 2007.

FINANCIAL RESULTS

The financial results of the Company for the year 2006-07 as compared with the previous year are as under:-

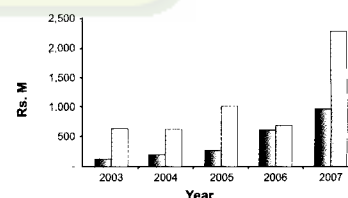
	Current Year ended March 31, 2007 (Rs.)	Previous Year ended March 31, 2006 (Rs.)
Sales and other Income	15,808,232,095	9,995,853,583
Profit before tax	3,750,135,323	1,786,569,279
Provision for tax	385,217,650	62,707,925
Profit after tax	3,364,917,673	1,723,861,354
Surplus in Profit and Loss Account brought forward from previous year	324,224,644	82,754,514
Available Surplus	3,689,142,317	1,806,615,868



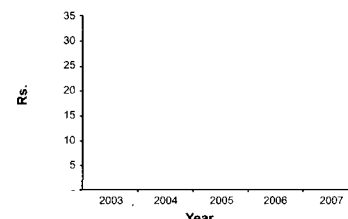
APPROPRIATIONS

Your Directors propose to appropriate the available surplus as under:

Final Dividend @ 100% (100%) on 105,764,355 equity shares of Rs. 2/- each.	211,528,710	211,528,710
Interim Dividend @ 100% (100%) on 105,764,355 equity shares of Rs. 2/- each.	211,528,710	211,528,710
Additional tax on Dividend	65,616,206	59,333,804
Transfer to General Reserve	2,600,000,000	1,000,000,000
Balance carried to Balance Sheet	600,468,691	324,224,644
Total	3,689,142,317	1,806,615,868



Import Export



DIVIDEND

Directors recommend a final dividend of 100% (Rs. 2/- per equity share) for the year. This is in addition to the 100% (Rs. 2/- per equity share) Interim dividend paid on February 15, 2007.

STATUTORY DISCLOSURES

1. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

Details of Energy Conservation, technology absorption, research and development and foreign exchange earnings as required under Section 217 (1) (e) of the Companies Act, 1956, are given in the Annexure - I to this Report.

2. PARTICULARS OF EMPLOYEES

Information regarding employees in accordance with Section 217 (2A) of the Companies Act, 1956 is given in the Annexure - II to this Report.

3. SUBSIDIARY COMPANIES

The company has received approval from Central Government under section 212(8) of the Companies Act, 1956 for not attaching the annual reports of subsidiary companies. The company will send copy of annual reports of subsidiary companies to shareholders upon request. The annual accounts of subsidiary companies are kept open for inspection at the registered office of the company.

During the year, "Kirloskar Copeland Limited" (KCL) ceased to be the subsidiary, as the company has sold its entire 51% shares held in KCL to Copeland Corporation, USA. This disinvestment was made with a view to focus on core business of pumps and pumping systems.

The company also acquired 100% shares of Chennai based Aban Constructions Private Limited (ACPL) during the year. ACPL is mainly into the business of oil and gas cross country pipe lines and civil construction projects such as tunnels, bridges, roads, water and sewerage and other industrial plants. The business of ACPL is complimentary to that of the company and there are significant synergy benefits between both the companies.

4. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Board of Directors report that

- In the preparation of the annual accounts, the applicable accounting standards have been followed and there was no material departure from the accounting standards.
- Accounting policies have been selected and applied consistently and that the judgements and estimates made are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as at March 31, 2007 and of the profit of the Company for the period April 1, 2006 to March 31, 2007.
- Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, and
- The annual accounts have been prepared on a going concern basis.

5. CASH FLOW

A cash flow statement for the year ended March 31, 2007 is attached to the Balance Sheet.

SAFETY, HEALTH AND ENVIRONMENT

Kirloskar Brothers Limited has an exhaustive safety, health and environment policy. With Continuous focus, the company has achieved significant progress in this area. Consistent safety awareness and orientation programmes are conducted for promoting overall safety consciousness across the organization. Our corporate vision for safety envisages "Zero Accidents" as the only acceptable standard.

**CORPORATE GOVERNANCE**

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, Management Discussion and Analysis Report, Report on Corporate Governance and Auditors Certificate on Corporate Governance are annexed to this report.

EMPLOYEE STOCK OPTION SCHEME (ESOS)

The members have approved the proposal in respect of ESOS at the previous annual general meeting. The company has formed the Compensation Committee of the directors and framed an appropriate scheme. The ESOS is being offered to all permanent employees after completion of necessary formalities. This would enable the company to retain and attract the talent and create sense of belonging among the employees.

FIXED DEPOSITS

The Company is neither accepting nor renewing the matured deposits since January, 2003. As on March 31, 2007, deposits from public and shareholders aggregating to Rs. 1,375,500/- have matured but have not been claimed. The Company has sent reminders for the same.

CORPORATE SOCIAL RESPONSIBILITY

The company has supported a few organisations for their activities in the field of education in rural areas and such other social causes.

DIRECTORS

Mrs. Lalita D. Gupte has been appointed as an Additional Director with effect from January 18, 2007. As per Articles of Association of the Company, she holds office till the date of ensuing Annual General Meeting and is eligible for appointment.

Mr. S. N. Inamdar, Mr. U. V. Rao and Mr. M. S. Kirloskar, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

AUDITORS

M/s. P. G. Bhagwat, the Auditors retire at the ensuing Annual General Meeting and are eligible for re-appointment. The requisite certificate pursuant to section 224 of the Companies Act, 1956 has been received. The Audit and Finance Committee has recommended their re-appointment and the annual audit fees.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the unstinted support and co-operation given by banks and financial institutions. Your Directors would further like to record their appreciation of the efforts of every employee for the results achieved during the year.

For and on behalf of the Board of Directors,

SANJAY KIRLOSKAR
CHAIRMAN

Pune : June 4, 2007

ANNEXURE - I TO THE DIRECTORS' REPORT

A. Conservation of Energy

In our plants, every care is taken to implement each process from energy conservation point of view during production. Further steps are taken towards recovery of energy used during Pump performance testing on the test loop.

The Company has taken specific steps for conservation of energy viz. Installation of wind mills of total 4.0 MW capacity, use of Variable Frequency Drive for compressed air plant, replacement of oil fired furnace by induction furnace for non ferrous foundry, Use of energy efficient equipments, etc.

The efforts are being taken to use the solar energy, as well.

B. Technology Absorption

1. Research and Development (R&D)

a. Specific area in which R & D carried out by the Company

- Development of Inline Vertical Fire pump for approval of Factory Mutual (FM) and Underwriters Laboratories (UL).
- Development of Horizontal split case pump with Low life cycle cost features.
- Development of Multistage pump for Coal Mine applications
- Development of Autoprime pump.
- Programmable Logic Controller (PLC) development for Hydro Pneumatic and Heat Ventilating Airconditioning (HYPN & HVAC) Systems.
- Development of submersible sewage pump with mixed flow impeller design.
- Structural analysis of valve components viz. valve body, dome and Disc

b. Benefits

- Increased market share in India and abroad.
- Improved quality of the product.
- Cost reduction.
- Customers' satisfaction.

c. Future plan of action

- Specialisation & strengthening in supply of entire pump system and packages like fire pump sets, dewatering set, Hydro Pneumatic and Heat Ventilating Airconditioning (HYPN & HVAC) Systems, prefabricated sewage pump system.
- Implementation of Central Pattern Manufacturing at Kirloskarvadi with CNC machines.
- Implementation of inverse design.
- Improvement of efficiencies of solid handling pumps.
- Use of Value Engineering techniques while making R & D on valve components
- Development of Stainless Steel as well as Polycarbonate Floats in Air Release Valves
- Rationalization of Small and Medium size Butterfly Valve Components
- Developing in-house facility for actual torque verification of valves, so as to select optimum gear box / actuators for valves.

d. Expenditure on R & D

- | | |
|--|-------------------------|
| a. Capital | Rs. 1,776,743/- |
| b. Recurring | Rs. 53,684,633/- |
| c. Total | Rs. 55,461,376/- |
| d. Total R & D Expenditure as a Percentage of total turnover 0.41% | |

2. Technology absorption, adaptation and innovation

a. Efforts, in brief, made towards technology absorption, adaptation and Innovation

- Autoprime pump with self priming feature for dewatering application
- Disruptive technology for motor pump sets with variable speed.
- Development of fire pump package
- Development of Hydro Pneumatic and Heat Ventilating Airconditioning (HYPN & HVAC) Systems.
- Learning and developing structural analysis skills in 3D modeling & Structural analysis using Pro/Engineer and Pro/Mechanica software package
- Development of in-house Design & Development of Mechanical Assembly for Hydraulic Operated Butterfly Valves

b. Benefits derived as a result of the above efforts

Please refer B1 - b